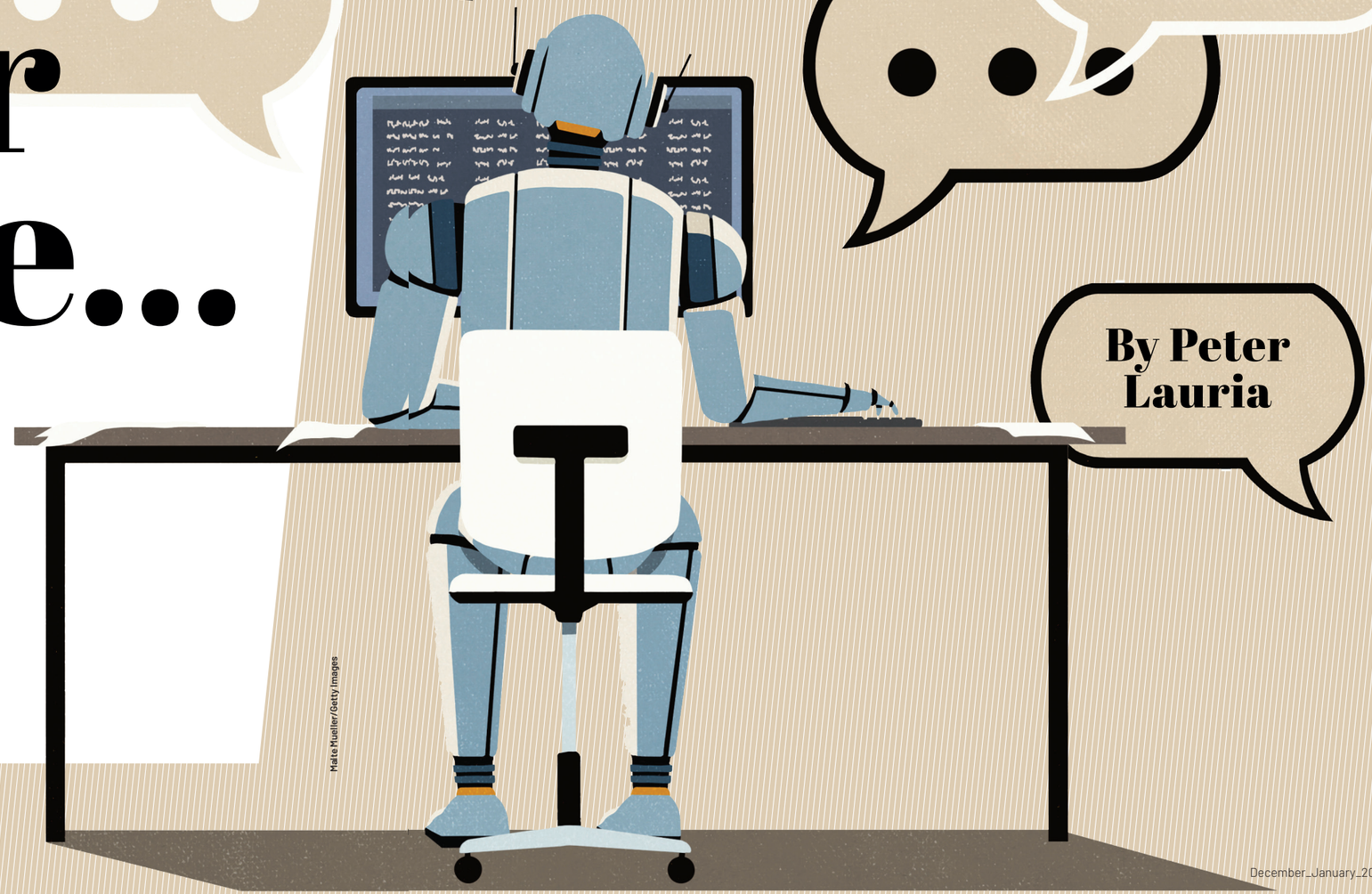
At Your Service... or Not

Be it travel companies or retailers, consumer firms are counting on AI to provide more and more of their customer service. How is that going?

THE PROBLEM
Replacing workers at consumer-facing firms with technology has enraged many people.

WHY IT MATTERS
Firms not responding to the issue will ultimately lose business to those that do.

THE SOLUTION
AI and chatbots may be part of the problem today. Can they be a solution in the future?



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By Peter Lauria

It's a question on the minds of many consumers these days: Are we being blown off?

You go to check out at the supermarket, only to discover the store has decided it's not worth staffing the registers the way they used to. You're irked at the lack of cashiers, but head to the self-checkout line.

You spend years racking up thousands of miles on your frequent-flier program, only to find that you no longer qualify to sit in the airport lounge. You could take your business elsewhere, but do you?

Or you see a charge on your credit card, try to get a representative on the phone to dispute it, and get trapped in a chatbot "spiral of misery."

Welcome to today's version of customer service. For some, the service can be quite impressive and high touch, especially if the consumer is doing business with a company where humans still answer phones, staff stores or hotels, and take care of customer complaints before they blow up. Indeed, firms have willingly poured billions into staffing to serve customers, and many leaders still measure their success by consumer ratings. "Serving customers well is a matter of profitability for firms," says Roland Rust, executive director for the Center for Excellence in Service at the University of Maryland. Rust should know—he's a pioneer in the economics of customer experience, and his work has helped firms quantify the ROI of cultivating loyalty and trust.



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But if top-notch customer service sounds like an oxymoron based on your experience, you are surely not alone. Name an industry, be it banking, travel, entertainment, or retail, and you will find that a vast number of firms are turning more and more to technology—with an eye less on service than on cutting budgets. By some measures, AI-fueled chatbots are one-tenth as expensive as staffing a call center with humans, and companies have saved billions slashing labor costs in nearly every consumer-facing field. But at what cost to customer service? According to some estimates, eight in ten companies deploy chatbots to handle frontline consumer complaints. Never mind that 80 percent of consumers find chatbots frustrating and unhelpful and say they'd much rather talk to a human. Or the fact that, according to the Parloa Consumer Patience Index, 44 percent of Americans try to escape a bot by yelling "human" or "person" into their phone. (Another 17 percent openly swear at the automated system—the rage has gotten that bad.) "We're in an environment in which consumers have had just about as much as they can take," says

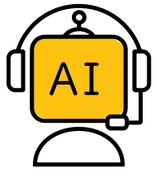
"Consumers have had just about as much as they can take."

Valarie Zeithaml, emeritus professor of marketing at the University of North Carolina at Chapel Hill and an award-winning researcher on service management and customer equity.

Still, many consumer firms, and some experts, say they are banking on AI—the very technology that has turned people off—to turn around the state of consumer service. The hope is that AI, which is still very much in development, will eventually predict and problem-solve customer needs better and faster than humans can. All of which leaves one question for anyone who struggles to reach any human for a refund or an explanation of a product: Will things get better—or worse?

Providing great customer service wasn't always a matter of profitability. It was just the way business was done. Banks, pharmacies, grocery stores, and more were all built on local ownership, community relationships, and trust. Even after local businesses grew into national chains and the economy evolved from producing goods to providing services, the idea of customer service remained relationship based, as in human-to-human.

It wasn't until the 1990s that firms came to see customer service as a cost center and began managing it according to a kind of financial calculus. It doesn't



Service by the Numbers

The customer-service industry is being reshaped—whether for better or for worse is an open question—by AI and automation. Here's a look, by the numbers, at how it's changing and how consumers feel about it.

49% people who say customer service has gotten worse in the last year

70% people who say poor service would make them switch to a competitor

80% common service issues AI is projected to be able to resolve by 2029

21% people who say making physical threats against chatbots is OK

140% the difference in spending between consumers with positive and negative brand experiences

50% consumers who believe AI agents are capable of displaying empathy while addressing service issues

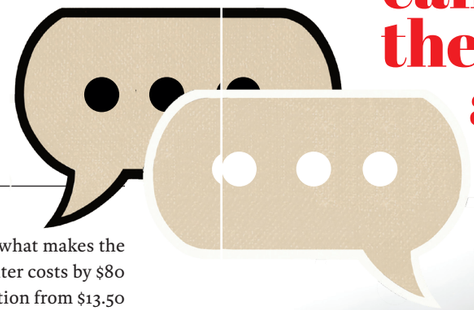
2.6 million customer-service reps in the US today

3 million customer-service reps in the US in 2022

77% service leaders who report feeling pressure from executives to accelerate AI deployment

75% users who prefer chatbots to humans because of their quick answers

$26 billion to **$58 billion** estimated market for customer-service software by 2030



take an MBA to figure out that call centers moved offshore not to provide better service, but to save firms up to 70 percent on facilities and labor costs. Then the internet, e-commerce, and social media came along and changed the math around customer service. Ryan Hamilton, an associate professor of marketing at Emory University and host of the podcast *The Intuitive Customer*, says that digital tools lowered the cost of customer service so much—particularly when measured against the revenue they could bring in—that firms began treating the function as an asset, to be invested in or spent down as economic circumstances warrant. Once customers are in a firm's digital ecosystem, he says, the mindset shifts from providing great service and cultivating loyalty to extracting the most value as quickly as possible. "Right now, companies are squeezing consumers all over the place, and service is at the top of that list," says Hamilton.

It's simple math, at least from the perspective of a CFO, says Beau Lambert, a senior client partner in the Financial Officers practice at Korn Ferry. "CFOs don't think in terms of experience," he says, "they think in terms of what makes the best investment." And when AI can cut call-center costs by $80 billion annually and reduce the cost per interaction from $13.50 to less than $2.00, the investment case isn't hard to see. Because of AI, one technology company was able to reduce support staff by 10,000 and generate roughly $750 million in savings. No one likes self-service checkout lines at grocery stores (to cite another area where service is commonly being squeezed), but they save firms about 25 percent on labor costs. Small wonder that 63 percent of firms in a recent survey are planning reductions of frontline and support staff through layoffs or attrition.

Consumers bear some responsibility for the erosion of service as well. Some segments, like Gen Zers, say they prefer chatbots to humans, for instance. Others will forgo miles or rewards from their frequent-flier program if they can get a cheaper flight from another airline. More importantly, data shows that though most people say they would leave a company over bad service, few actually do. In fact, one recent study found that 56 percent of customers rarely even complain after a bad experience. Streaming-media services are a perfect example: One-quarter of people who cancel end up resubscribing within three months. But it isn't just inertia that leads people to put up with bad service. Peri Hansen, leader of the Consumer Products sector and Marketing Officers practice in North America for Korn Ferry, says many customers stay because they are trapped. Those who leave a loyalty program, for instance, can lose valuable accumulated points not just on flights, but also on partner services like hotels, restaurants, and early

"The mindset is to either not get calls, or to have them handled in an automated fashion."

George Tsartsianidis/iStock/Getty Images



access to concert tickets. "People are so waist-deep in points that they can't afford to leave," says Hansen.

The result is that underneath the surface people are seething. In the 2025 National Customer Rage Survey, two-thirds of consumers reported feeling enraged at firms because of a service issue, the highest level in the survey's long history. Nearly 80 percent of respondents experienced a problem with service in the last year that required "very high effort" on their part to resolve it. To be sure, bad service costs people more than $1,000 and roughly one full day of their time every year. Researchers peg the total cost of the "annoyance economy"—the basic interactions, like canceling a subscription, that processes and bureaucracy, intentionally or not, make difficult—at $165 billion a year in lost time and money.

The catch is that only 33 percent of people complain over the phone. The rest do so through digital-media channels, websites, emails, chatbots, and social media. From a cost perspective, that plays right into firms' strategy, says John Goodman, who began working on the Rage Survey for the White House in 1976. "The mindset of many firms is to either not get calls, or to have them handled in an automated fashion," says Goodman. "To CFOs, escalation is a dirty word, because it increases costs."

"Serving customers well is a matter of profitability for firms."

The irony of all this is that firms are spending more than ever on customer service and experience. It's just that most of the investment is going to automation and AI tools, which more than half of customer-service leaders view as a key part of their customer-experience strategy.

It's still unclear where this new generation of AI tools and assistants will fit in. The hope is that AI will become super adept at creating tailored experiences and services at scale as it learns more and more about consumer behavior and spending patterns. There are encouraging signs for consumers at firms that are doing it right. Who isn't delighted when their pet gets a birthday card from the place where they buy its food, for instance? To be sure, chatbots aren't universally hated. People love them when they work, which is to say, when they remind them to order toilet paper, help them change an appointment quickly, or enable them to efficiently track an order.

Firms are piloting and deploying tools that can do all that, and more. Chatbots can already display empathy and detect anger or frustration; when they do, they're programmed to escalate calls to a human representative. Rust, one of the first people to quantify the value of service quality in financial terms, believes empathetic AI could help rebuild consumers' loyalty and emotional connection to brands. Next-generation AI agents will not only answer questions but will also carry out tasks like processing refunds and rebooking flights; they will even pick out and buy items autonomously. There are bound to be missteps and friction along the way. We've seen numerous examples of chatbots and agents behaving in ways that are detrimental to both consumers and firms, such as when one agent sold an SUV for $1, or when another told a customer about a company policy that never existed.

As it evolves, service will likely find some equilibrium between cost and quality. Over the next three years, firms are projected to spend more than $30 billion on customer-service software. But the real question is whether they'll staff enough humans to oversee that technology and handle issues when they are escalated. Hamilton is optimistic, believing that the bar for service has been lowered to the point where firms will start "building up that asset again as a point of differentiation." And the firms that do so will have a competitive advantage. "Service economics is a gauge between capital and human dynamics," he says. "At some point, either the service will get better, or they will push consumers too far."

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THEY ARE KEPT.

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